SENATE FISCAL AGENCY
MEMORANDUM

SENATE FISCAL AGENCY

DATE:	May 14, 2018
TO:	Members of the Senate
FROM:	Ellen Jeffries, Director
RE:	Transmittal of Senate Fiscal Agency's Economic Outlook and Budget Review

I am pleased to transmit to your office a copy of the Senate Fiscal Agency's (SFA's) latest economic and revenue forecast. This forecast will be used by the SFA at the Consensus Revenue Estimating Conference to be held on May 16, 2018.

The SFA's updated economic forecast calls for modest growth in the United States economy through calendar year 2020. Nationally, economic growth in 2018 and 2019 will be stronger than in 2017 as a result of Federal changes in taxes and spending. Given tightness in the labor market, higher growth is expected to increase wages and business investment, and thus help offset low productivity growth, lower motor vehicle sales, and a stronger dollar. Michigan's economic performance through 2020 will be weaker than in recent years, primarily because while motor vehicle sales are at very high levels, the levels are projected to be down from recent years. Wage and salary employment in Michigan is forecasted to increase each year over the period, although the growth will slow as vehicle sales slow, keeping gains less than those experienced in 2017.

In terms of the State revenue forecast, the SFA predicts a 2.7% increase in General Fund/General Purpose (GF/GP) revenue during FY 2017-18, a 1.0% decrease in FY 2018-19, and a 2.2% increase in FY 2019-20. Growth in GF/GP revenue is slowed over the forecast by tax policy changes related to personal property tax reform, increases in the individual income tax personal exemption, sales and use tax redirections, timing issues related to Federal tax reform, and beginning in FY 2018-19, expanded property tax credit provisions and earmarking individual income tax revenue to the Michigan Transportation Fund. Restricted School Aid Fund (SAF) revenue is expected to increase 4.6% in FY 2017-18, 2.7% in FY 2018-19, and 2.5% in FY 2019-20, reflecting stable growth in earmarked SAF revenue sources.

A comparison of the SFA's revised FY 2017-18 revenue estimates with enacted appropriations and projected expenditures leads to positive year-end balances in both the GF/GP and SAF budgets, of $347.9 million and $273.1 million, respectively. These balances are carried forward into the FY 2018-19 budget estimates. For FY 2018-19, the SFA's revised revenue estimates result in a year-end balance of $389.0 million in the GF/GP budget and a year-end balance of $342.7 million in the SAF budget. In the SFA's outlook for the FY 2019-20 budget, there is a projected GF/GP budget surplus of $447.2 million if the SFA's FY 2019-20 revenue estimate is compared with the Governor's FY 2019-20 appropriation recommendation, adjusted for SFA's estimates for caseload and costs in the Department of Health and Human Services. If the SFA's FY 2019-20 SAF revenue estimate is compared with the continuation of the FY 2018-19 Senate SAF recommendation into FY 2019-20, adjusted for SFA's estimates of pupils and other costs, the projected SAF surplus is $610.9 million.

If you have any questions about this report, please contact me or the SFA's Chief Economist, David Zin.

/lms
Attachment

c: Tom Davis, Senate Majority Policy Office
David Ettinger, Senate Democratic Office
David Zin, Chief Economist
Ryan Bergen, Economist and Fiscal Analyst
Kathryn Summers, Associate Director

201 N. Washington Square • Suite 800 - The Victor Center • Lansing, Michigan
Telephone: (517) 373-2768 • Fax: (517) 373-1986